# How Can You Price Effectively In Response to Tariffs?

Tariffs—and perhaps more concerningly, uncertainty around tariffs—pose a significant challenge for businesses. Success in turbulent markets requires leveraging data for price optimization. Among three common approaches, only value-based pricing ensures reliable ROI, outlined with an actionable plan.

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Uncertainty around tariffs is a critical challenge facing every business today. To have any chance of thriving during this kind of market disruption, your business must leverage data effectively to optimize pricing and protect profits.

There are three common approaches to inflation pricing that people depend on to weather inflation: descriptive, predictive, and prescriptive.

Only value-based pricing, however, delivers dependable ROI. Here’s why, as well as an action plan to get you started.

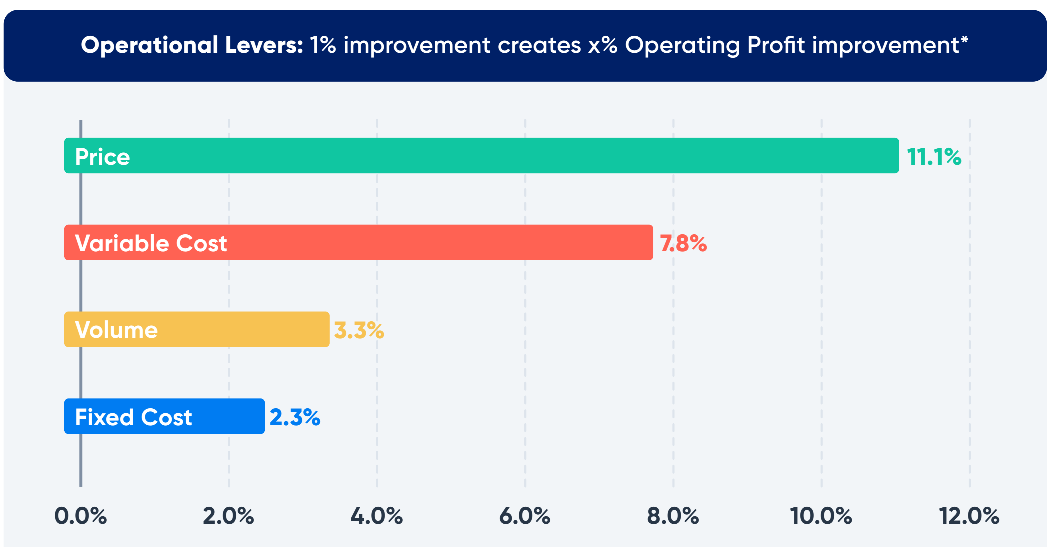
## The Impact of Tariffs on Pricing Strategy

Right now, every business is worried about tariffs. The Trump administration has put tariffs at the forefront of its economic policy, which means the threat that a new tariff could be put in place from one day to the next with little warning has disrupted business plans worldwide.[1] Countries around the world have threatened their own tariffs in response to the United States, making it increasingly difficult for businesses to anticipate the cost to acquire critical raw materials or sell their own goods. Even when tariffs are not enacted, fears of tariffs can drive up costs through panic buying or preemptive price adjustments.[2]

Economists from the World Economic Forum predict that 2025 will have a particularly turbulent economy.[3] Costs are expected to rise alongside economic and supply chain uncertainty. When costs rise, it's tempting to raise prices in tandem. According to Gartner research, this has been the knee-jerk reaction of CFOs to the recent tariff threats, with 73% of cost increases from tariffs absorbed by customers.[4] Unfortunately, this response tends to depress overall financial performance in both the short and long term if cost pass-throughs are not calibrated carefully.[5]

Optimal pricing, therefore, becomes even more critical. The gains available from improving prices are always significant. According to research by the Harvard Business Review, a 1% change in pricing efficiency can have an 11-12% per cent improvement in operating profits.[6] The leverage effect on the company during economic upheaval can be even greater. If you are looking for the best way to protect your bottom line during times of economic uncertainty and in response to tariffs, improving pricing strategy is the place to start.

Using data science to optimize price files provides a strategic advantage as you control volumes




* Source: Managing Price, Gaining Profit - Marn & Roiello. Harvard Business Review.

1 Faguy, Ana. "What Are Tariffs, Which Countries Is Trump Targeting and Will Prices Rise?" BBC News, 3 Feb. 2025, www.bbc.co.uk/news/articles/cn93e12rypgo.
2 Hook, Leslie, and Camilla Hodgson. "US Metals Prices Soar to Big Premiums ahead of Donald Trump's Tariffs." @FinancialTimes, Financial Times, 10 Feb. 2025, www.ft.com/content/9d48a9d1-d699-4dbb-9978-77b81157db20.
3 Collins, Aengus, and Philipp Grosskurth. "All Eyes on the US, as Chief Economists Predict a Turbulent Year for Global Economy Ahead." World Economic Forum, 16 Jan. 2025, www.weforum.org/stories/2025/01/all-eyes-us-economy-chief-economist-expect-weakness/.
4 Bant, Alexander, et al. "CFO Response Actions to U.S. Tariffs on China, Mexico and Canada." Gartner, 7 Mar. 2025, ID G00830062
5 UK Office of Fair Trading. "Cost Pass-Through: Theory, Measurement and Policy Implications." GOV.UK, Feb. 2014, www.gov.uk/government/publications/cost-pass-through-theory-measurement-and-policy-implications.
6 Marn, Micheal V, and Robert L Rosiello. "Managing Price, Gaining Profit." Harvard Business Review, 1 Aug. 2014, https://hbr.org/1992/09/managing-price-gaining-profit.

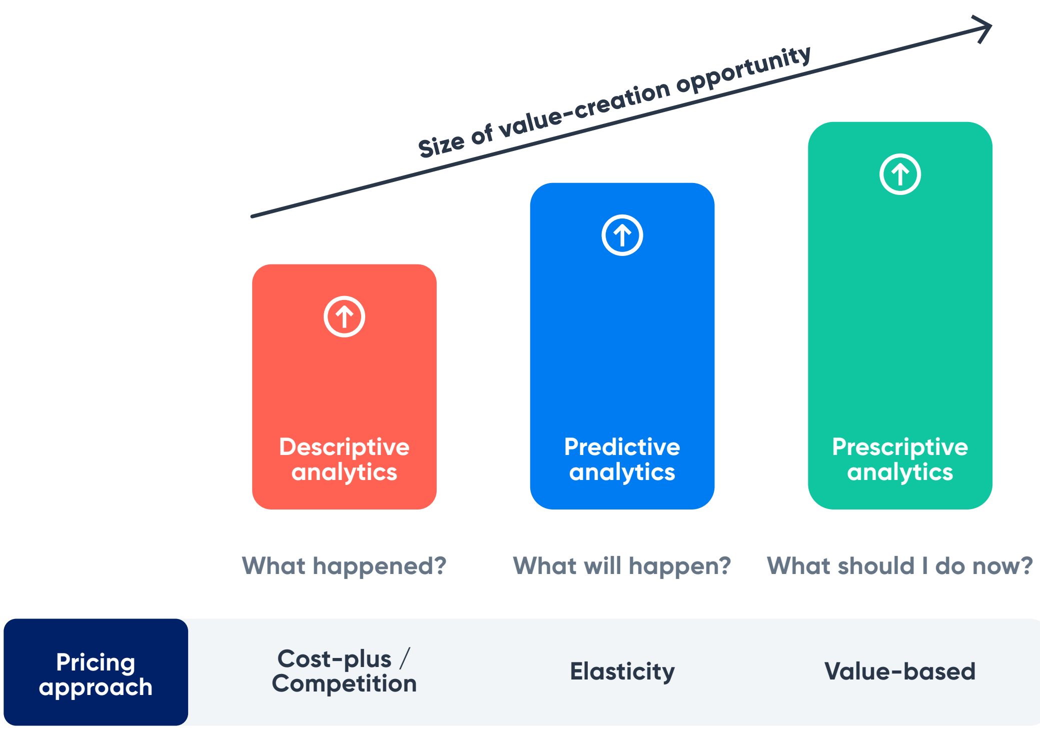
## Tariff Pricing: Three Basic Approaches

Pricing is a lever that carries a lot of impact, but almost every decision requires a complex trade-off. Supply and demand, substitution, customer perception, costs, and so many other factors impact outcomes. So how do you even begin to optimize prices?

Easy. Use your data.

That may seem overly simplified. After all, there's tons of data out there. Every piece of information you have that could possibly affect pricing decisions is a data point. In reality, however, there are three basic approaches to pricing effectively in times of economic uncertainty— and each requires different types and usages of data:

1. **Descriptive:** Cost-plus or competition pricing
2. **Predictive:** Elasticity pricing
3. **Prescriptive:** Value-based pricing



## Descriptive Approaches to Pricing Amidst Economic Uncertainty

Descriptive analytics answer the question "What happened?". Essentially, you look at historical data to educate yourself on facts that may inform future decisions. The two most common pricing strategies that fall into these categories are cost-plus pricing and competition pricing.

### Cost-Plus Pricing

Cost-plus pricing is the most straightforward strategy. You choose a markup and add it to your current costs. This directly passes rising costs from tariffs, scarcity or inflation on to your customers. Very little data is needed other than an up-to-date cost breakdown. The benefit of this approach is that you guarantee a target margin; it's built right into the price. Unfortunately, this approach does not ensure profitability. Despite the guaranteed margin, you don't account for the most critical part of the profit equation: revenue. Great margin on zero sales is still zero profit.

If the new price doesn't appeal to the customer, you will eventually eat away at profit through unsold inventory, markdowns and promotions. This approach completely ignores customer response to prices and ultimately often undermines the goal of adjusting prices in the first place. Instead, internal concerns drive all prices.


### Competition Pricing

The next descriptive inflation pricing strategy is competition pricing. This is done by anchoring your prices to those of your competition. You monitor your closest competition's prices in real time and match or slightly beat their offer. The data can usually be scraped off the internet automatically, making it easy to collect relevant data and alert you as to when it may be time to adjust prices. This approach is a slight improvement over cost-plus pricing in terms of its customer responsivity. After all, your offer will align with the other offers customers will access in the market. Presumably, underperforming prices will lead all offers to eventually adjust—or force your customers to simply accept prices that they do not find appealing, delivering sales in the short term but often eroding long-term loyalty.

The problem, of course, is that this delivers price strategy to your competitor's control. You don't have any way to differentiate yourself through pricing. Worse still, you often find yourself in a race to the bottom when using competition pricing. You and your competitors lower prices to beat each other until you are operating on the thinnest possible margins. Whoever has the most volume will survive.

Moreover, customer perception of prices is not entirely rational. Very simple tricks like anchoring a price in the customer's mind can make a competitor's offer more appealing, even if it is objectively identical. Versioning may make the same product seem like a better offer by seemingly including more features in the description. Anchor prices may make a regular price seem like a discount compared to a higher price, even if the price would be unreasonable.

Plus, customers may not even be rationally searching the market for the best deal. Some customers are simply looking at trusted providers or choosing the first "good" offer that they find. Even in the most cost-sensitive economy, your ideal customer may not choose your offer, even when it has the lowest base price.

## Predictive Approaches to Pricing Amidst Economic Uncertainty

Predictive analytics answer the question "What will happen?". Essentially, you calculate the most probable outcome based on a particular input. In pricing, you generally predict the likely sales based on a particular price for each product. This is done by calculating a product's price elasticity. This is often done in Excel, creating a simple elasticity curve graph, allowing you to pinpoint what price would maximize your revenues. Most of the data you need to calculate price elasticity is available, either widely or within your sales data already.

Elasticity pricing sounds easy and accurate, but in practice, calculations are fairly imprecise and fragile. Why? Sales are often driven by many more factors than price alone, especially in a turbulent economy. Scarcity mindset, sudden shifts in customer preferences or even an offhand comment by a leading voice on social media can—and have—driven surprising deviations from expected elasticities. While this data will eventually feed into new elasticity calculations, the response is slow and by the time that disruptions are informing your predictive data, a new disruption has likely already occurred.

The relationship between price elasticity and real-world price performance is surprisingly tenuous. Take a recent example from a tariff-driven economy. During Brexit, customers responded to economic uncertainty created by tariffs in often erratic ways. Based on the r-squared measure of these graphs below, only about 10-30% of all sales can be explained by prices. Even if you had perfect data to set prices using predictive approaches, the low correlation makes price optimization very slow and inefficient. As for fragility, the minute some element in the calculation changes, you must reevaluate all these elasticities. During periods of economic uncertainty, this expiration date arrives ever-faster.

So yet again, this approach falls short for tariff pricing. You cannot predict the outcomes efficiently enough to follow through on advice before it is out of date.

## Prescriptive Approaches to Pricing Amidst Economic Uncertainty

Prescriptive analytics answer the question "What should I do now?". Essentially, you stop trying to set the perfect price in anticipation of future conditions and start setting prices closer to real-time conditions to get you closer to your goals. This is known as value-based pricing. You set the price of a product as close to its real-time value to the customer as possible.

For many companies, this seems like an impossible task. After all, your customers don't walk in with a price tag. Even if you asked each customer, and they tried to answer honestly, you would likely still not get a clear answer as to what price they are willing to pay. Neuroscience research at Harvard suggests that we don't consciously know our maximum willingness to pay, as it is constantly affected by new references and implicit expectations.[7] The data needed for value-based pricing seems as though it would be exhaustive.

But in reality? Prescriptive pricing lets your customers do your market research for you — and you certainly already have the most valuable data.

**How does this customer-driven market research work? There are two critical elements:**

**Test constantly**

**Learn from your data**

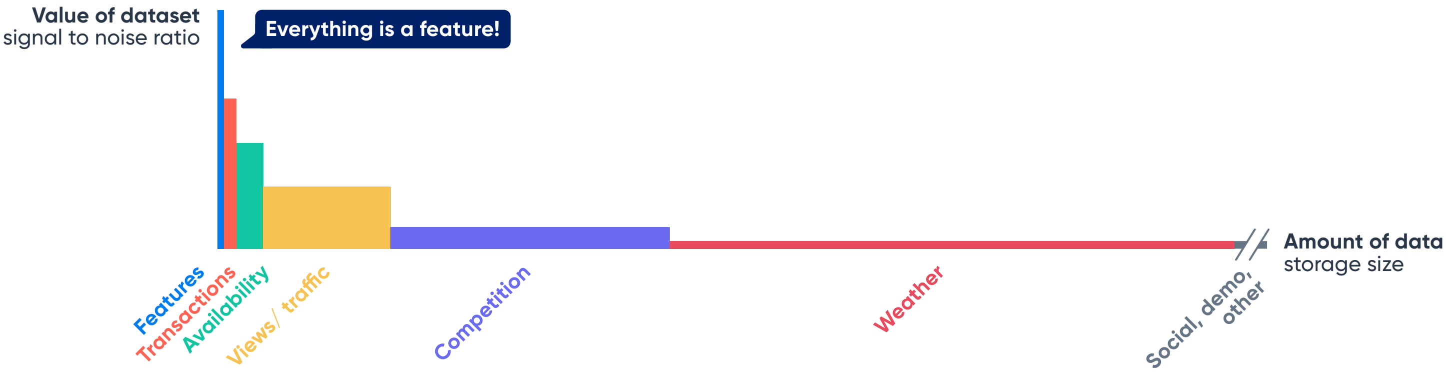
Testing constantly is a very simple idea. Rather than spending a lot of time doing desktop or market research, you change some prices and then observe the results. The impact of the new price on your customers and KPIs will tell you whether or not this price is optimal. In an uncertain economy, you may find that customer willingness to pay has increased or decreased, which often does not match your intuition.

Next, you learn from that data to apply lessons to other products. Similar products often behave similarly to price changes in the same direction and percentage. By learning from the data, you accelerate and multiply your impact. If any new price has a negative impact, you can revert to the old price immediately with limited downside. Then, you continue the learning loop: keep testing and adjusting to adapt to determine the new optimal price for your customers. The more you test, the more your impact grows.

As for the data required to test and learn? Luckily, you already have the most impactful data internally. After years of testing and research, it's become clear that product features, transactions, and availability have the greatest impact on prescriptive pricing models—all of which you certainly have in your CRM or ERP. Additional data sets like traffic, social media trends and weather add value but with increasingly diminishing results. To start learning, it's not critical to add this information. Still, you can easily incorporate this information by working with an outside expert on prescriptive models to use effectively right away. The key is starting with what you already have and growing your dataset as you test and learn.

7 Karmarkar, Uma R., et al. "How Our Brain Determines if the Product is Worth the Price." Harvard Business School Working Knowledge, 2023.

The prescriptive approach is the only strategy shown to optimize prices when facing market disruption like tariffs. If you want to maximize your impact, you must adopt a value-based strategy immediately.




Source: proprietary research on ~1.8 Petabytes of data. Each use case has its own specific, different proportions.

## The Case for Prescriptive Tariff Pricing: Wine Prices Post-Brexit

### Laithwaites

Prescriptive, value-based pricing is the fastest way to recover value and protect margin during when facing tariffs and inflation. It works across every industry and customer base because the data guiding your pricing strategy comes from your unique customers. Learnings are specific and targeted, but no example illustrates this as well as the case of Laithwaites wine:

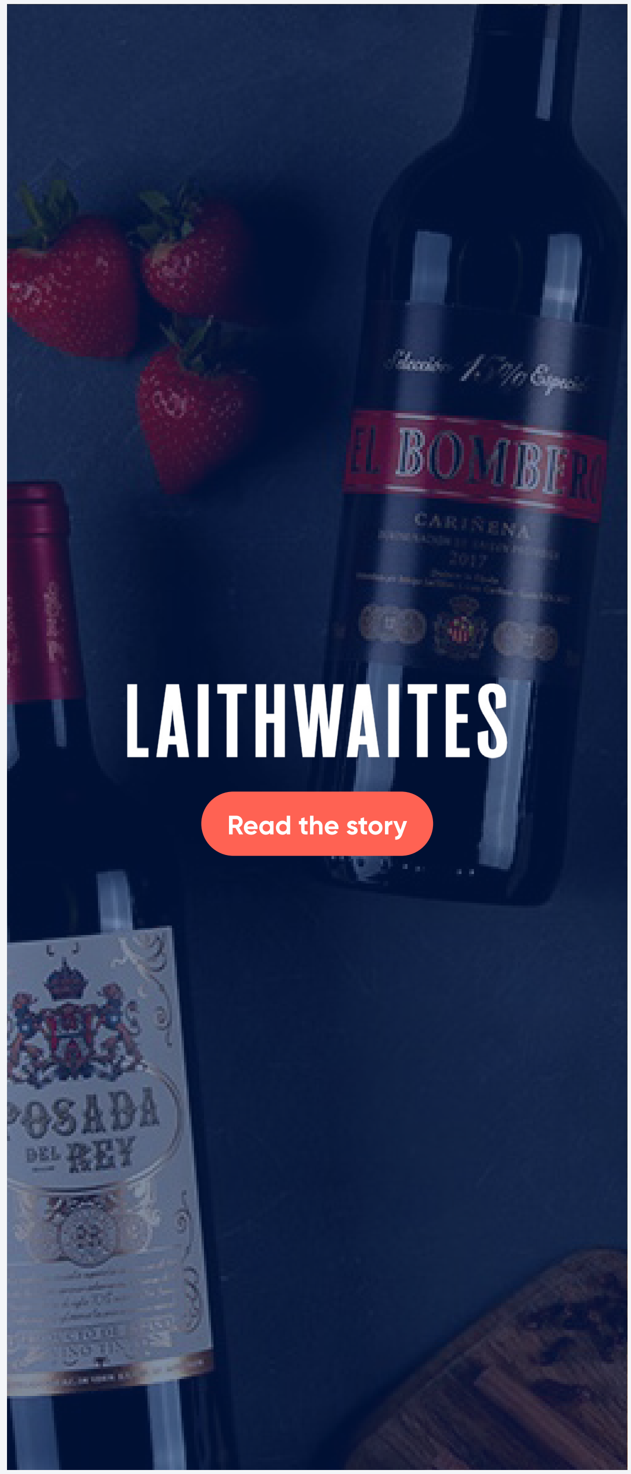
Laithwaites is a leading UK wine retailer known for importing European wines. From one day to the next, the costs of importing wines rose 20% due to tariffs, fluctuations in exchange rates and growing import costs caused by Brexit. This economic uncertainty hit the company hard. They needed a more effective and agile pricing strategy that could react quickly to the ongoing market disruptions.

What ToolsGroup Did for Laithwaites:

| |
|---|
| Strategic price adjustments in response to real-time customer needs. |
| Daily identification of high-impact pricing opportunities, both to raise or lower prices of particular wines/locations. |
| Quarterly executive business reviews to identify changes in strategy that may benefit the company as Brexit disruptions eased. |

After implementing ToolsGroup prescriptive price solution:

- 3.1pp increase in margin per ticket
- £5.5M initial margin gain
- 3% increase in long-term revenues



## Action Plan: Five Simple Steps to Start Implementing Value-Based Pricing

1. **Dig into your dataset.** You already have the right data; you just need to find it! At ToolsGroup, we help our clients identify and prioritize features, attributes, category trees and product mappings to use in their models. This is where you should start, too.If you work with a company like ours, we can add our own learning data set to accelerate the pace of learning, but even limited internal data will get you results.

2. **Codify strategy and rules for your testing loop.** If you test without a clear framework, it will be difficult to learn anything useful from your test. Make sure you've written out how you will conduct your tests and track results.

3. **Set your goals.** What do you want these prices to accomplish? Are you hoping to maximize revenues, or would you instead protect margin? Is it essential to eliminate as much of your inventory as possible? Each of these goals will be best served by a different price, so you must clearly identify the KPIs measuring success.

4. **Test new price points.** Change a few prices and see what happens. You can use some elasticities or other market research to guide yourself to the products that may get the fastest results, but the key is not to wait too long. Let your customers do the research for you!

5. **Measure impact.** The second half of the loop: learn! You need to track the outcome of the test and apply the results before testing again. Iteration is how you can ensure that impact is optimal and sustainable.

Pricing is critical to the success of your business. You can't afford to wait to implement a value-based pricing strategy. Take action now, and impact will surely follow.

Learn more about how ToolsGroup solutions help companies optimize decision-making for **greater efficiency, enhanced customer satisfaction,** and **better margins.**

Learn more